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INSULAR FREE TRADE

THEORY AND EXPERIENCE

BY
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NOTE.

THIS pamphlet is a reprint of a lecture I delivered in Birmingham in 1905, considerably extended, with the few figures I made use of brought up to date. I have retained the original form so far as the use of the first person in matters relating to personal experience.

I assume on the part of my readers a knowledge of the published records of international trade, and of the statistical case for Free Trade and Tariff Reform as presented to the country by their respective advocates.

My object has been to bring into opposition the two theories of foreign trade—that of List and his followers and that of Adam Smith and Free Traders, with the fruits of their policies as practised by foreign nations and by ourselves respectively; and to add inductive proof or disproof from the experience of two generations, to abstract deductive argument.

RUSSELL REA.

January, 1908.

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SECTION I.

THE TWO THEORIES.

THE FUNCTIONS AND LIMITS OF FOREIGN TRADE.

BEFORE entering into the consideration of a theory of foreign trade, either the Free Trade theory or any Protectionist theory, it is necessary to have a clear idea of the functions and limits of foreign trade in a nation.

In the great economic controversy in which the people of this country have been engaged during the last five years, it has been an error, committed sometimes by Free Traders, and almost always by Tariff Reformers, to speak of our foreign trade as our "trade." Tariff Reformers have even published statements of our exports and imports, and called them our "National Balance Sheet." Nothing could be more misleading. To one nation a foreign trade may be a matter of small importance, and a very minute proportion of the national industrial energy be directed to the production of goods for export; to another it may be of the greatest importance; but, taken alone, its foreign trade is no measure of a nation's activities, its income, its prosperity. The truth is, the income of every nation is the produce of its own industry, made either in its own home by its own citizens, or its own capital and the enter-

prise of its own domiciled citizens abroad—that and nothing more. The portion of this produce it may suit one nation to exchange for the produce of other countries is no indication at all of the quantity remaining which it does not suit such nation to exchange. The amount of foreign trade of a nation, therefore, is no sufficient indication of its activities or prosperity, and to speak of a table of exports and imports as a national balance sheet is absurd.

During the course of the fiscal controversy, Free Traders have pointed to the total sum of our exports and imports, and the amount by which these exceed, both in gross and per head, those of foreign nations, as in themselves a proof of our superior efficiency and wealth; Tariff Reformers have pointed to the more rapid growth of the exports of certain foreign countries in certain years as in itself a proof of our relative decadence in efficiency and prosperity. Neither of these arguments is economically sound. The foreign trade of the United States, for example, does not amount to one-third per head of that of the United Kingdom, but the average income of the American is now at least as great as that of the Englishman. It is, however, scarcely a real necessity to him to import anything at all. His imports of food are practically confined to sugar, tea, coffee, wine and spirits, and fruits; his imports of raw materials chiefly to silk, hides, indiarubber; and those of manufactured goods to special goods and articles of luxury, diamonds being an item of importance, not to staple manufactures for general consumption; while

the great American exports of raw cotton and food stuffs are only rendered necessary as payment for the prodigious expenditure of American citizens in Europe.*

To different nations in varying degrees is a foreign commerce valuable, and to some necessary. To ourselves, who have to import most of our raw material, and half our food, a great export trade is not only valuable, but vital.

And the question forced upon us to-day is, How shall we best preserve our great export trade by which we pay for our imports? Shall we continue our present policy of Free Trade, whatever course may be pursued by foreign nations, or shall we regulate our exchange by tariffs and preferences?

THE FUNDAMENTAL AXIOM ADMITTED AS THE BASIS OF BOTH THEORIES.

I will not insult the intelligence of my readers by stopping to prove that foreign trade is really exchange and nothing else, that imports are paid for by exported goods and services and by nothing else. There is no living or dead economist, English

* The late Edward Atkinson, a few weeks before his lamented death, stated to the writer his reasons for believing that this import of the United States cannot be less than 60 millions, and may reach 80 millions sterling per annum. This is, of course, as genuine an American import as any which passes through an American Custom house. It is imported direct into the stomachs and on to the backs of American citizens, and in the supply of their various personal wants, and is paid for by the drafts which Brown, Shipley and Co., Baring Bros., etc., meet out of the proceeds of the sale of cotton in Liverpool, or corn at Mark Lane.

or foreign, Protectionist or Free Trader, who doubts it. The Protectionist Professor Ashley calls the notion that imports are paid for by money which might otherwise "be spent at home," "the crudest of popular fallacies, which ought no longer to need refutation." That very able Tariff Reform champion, Mr. J. L. Garvin, says, "It is true that every import must develop a corresponding export." Every international banker and bill broker conducts his business on this fundamental assumption, and proves its truth in practice every day. Yet, while every man with one grain of capacity to understand a perfect deductive argument, or any practical experience in international commerce, knows, and will explicitly admit, that exports pay for imports, nine-tenths of the arguments of the Tariff Reformers are implicit denials of this fact. All the arguments of various kinds of British manufacturers, who truly enough point out that foreign goods are imported into this country in successful competition with their goods, and that these goods might be made here, and British labour employed to make them, are arguments of this nature, they are implicit denials of the axiom that these imports are now being paid for, and must be paid for, by the produce of British labour, though perhaps not of the labour employed by the manufacturer advancing the argument.

It is necessary to be always on the watch for some implicit denial of this fundamental principle. For my own part, I always remember that when a man asks that the German iron or American window

frames should be excluded from this country for his benefit, he is asking, unconsciously, that my ship which is earning the money to pay for these articles shall be put out of commission and laid up.

THE PARTING OF THE TWO THEORIES.

The fact being accepted by the common consent of all instructed persons, that exports and imports do and must balance, we are prepared to consider the rival economic theories and policies—that of the regulation of imports by Protection, and that of Free Trade. Mr. J. L. Garvin says, as I have quoted already, “It is true that every import must develop an export,” but he goes on to say, “The vital question is, What do you exchange for what?” This is a perfectly accurate and fair statement of the point at which dispute arises between instructed Tariff Reformers and Free Traders. By instructed Tariff Reformers, I mean, of course, persons who have some knowledge of the theory and practice of the international exchange—first of products, then of Bills of Exchange, and then of bullion and the precious metals. Among the advocates of Protection in and for England, these men are a minute minority. They are to be distinguished from the vulgar intriguing manufacturer, who seeks to establish a corner at home. They are to be distinguished from those working men, fortunately few in number, who can see that they and their particular trade would profit at the moment if all the rest of the people would consent to be taxed for their benefit, and cannot

see a step beyond. These men are the brain of the Tariff Reform party, and they profess, not only to be economists, but to be the most advanced and the most scientific of theoretical economists. They tell us that the old faith delivered to us as an everlasting gospel by Adam Smith and Cobden was no such thing, but was an excellent temporary system which it suited England to adopt sixty years ago ; but to maintain that it is a policy fitted for every nation, at every stage of its economical development, is to write yourself down an ancient fossil—a petrified survivor of a former period of economic thought. The gospel of the modern “historical” and “scientific” school, put forward in Germany sixty years ago by Friedrich List, and preached by his disciples and successors ever since, has, they say, entirely superseded the ancient doctrine, which they nickname “Smithsonianism” and “cosmopolitan Free Trade.”

In considering the rival theories, that of Free Trade as expounded by Adam Smith, preached by Richard Cobden, and adopted by England, and the Protectionist theory as promulgated by Friedrich List and his followers, and put into practice by almost all other countries, including our own Colonies, I shall not enter on the academic argument that Free Trade is the best system for all nations, in all possible circumstances, in all periods of their growth, that it is demonstrably right for all time and all space, as a general economic proposition. Still less shall I attempt to prove that no other

national considerations than those purely economic should influence a national policy of foreign trade. I shall confine this argument to an examination of contemporary commercial phenomena, the growth and the present lines of development of international trade, considered specially in relation to this country at the present time, and attempt to show that, whether one holds fast to the theory of Adam Smith, or adopts the Protectionist theory of List, Free Trade is not only the best, but the only possible fiscal system for this country.

THE PROTECTIONIST THEORY.

And first, what is this new learning, and what is the light we can gain from it? We find on examination that Friedrich List and his followers declare themselves to be the only worshippers at the shrine of true Free Trade, and that Richard Cobden's clumsy foot had desecrated her temple, his sacrilegious hand had torn down her veil, and his profane tongue had uttered her mysteries to nations which had for long ages to live and labour before they could be ready for initiation.

Of Free Trade itself, the abstract "Free Trade," written in capital letters, and uttered in whispers, List, writing about the time of the institution of the German Zollverein, says: "In the Union of the three Kingdoms of Great Britain and Ireland, the world witnesses a great and irrefragable example of the immeasurable efficiency of Free Trade between united nations. Let us only suppose all other

nations of the earth to be united in a similar manner, and the most vivid imagination will not be able to picture to itself the sum of prosperity and good fortune which the whole human race would thereby gain." And he piously adds: "Unquestionably, the idea of a universal confederation, and a perpetual peace, is commended both by common sense and religion." Having thus given us a glimpse of a vision brighter than "the most vivid imagination can picture to itself," he straightway slams the door of the temple, and says, "It is not for us or our children's children;" the way to go is long and hard, and for each nation it has three great stages, long as geological periods, to be passed, not by one, but by all nations, before universal Free Trade can come. In the first, a nation will "adopt Free Trade with more advanced nations as a means of raising itself from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to the principle of Free Trade and of unrestricted competition in the home as well as in foreign markets, that so their agriculturists, manufacturers, and merchants may be preserved from indolence, and stimulated to retain the supremacy they have acquired." Note that this last stage must necessarily be a state of one-sided Free Trade for the more advanced nations, until all nations have achieved

the same level of economic development. This, says List, is the natural economic order, which would, in due course, lead to a millennium of universal Free Trade, if nations were composed of fleshless and bloodless calculating economic units. But the units and the rulers of a nation are jealous, passionate, human beings, and a nation has other interests and other ideals than those purely material and economic.

It is certain that the nations of the world will not consent to pursue the even scientific path of their natural economic development. Therefore, however sound the theory may be, the facts of life must be looked in the face, and even the sound economic theory must bend to a National Policy. Wars will happen, and a nation economically dependent upon other countries, either for food or manufactures, will be at a fatal disadvantage against a more self-contained people. Therefore, this natural economic order of progress, from an infancy of Free Trade, through an apprenticeship of Protection, on to a manhood of Free Trade, must be controlled and modified by considerations not economic but political and social. And thus arose the *National Economics* of List and his followers—the foundation principle being, in his own words, “Every great nation must seek, before all other things, the independent and uniform development of its own powers and resources. Agriculture, manufactures, commerce, and navigation must all be developed in a nation proportionately.”

It is now sixty years since List lived and wrote

his greatest book, "The National System of Political Economy." At that time the manufactures of Germany were insignificant, and her exports chiefly agricultural produce. His immediate object was to persuade his countrymen to enter upon his second economic stage, that of protection of their manufactures, that they might thus develop their own powers to manufacture for themselves; and, to induce them to face a certain immediate loss and burden, he invented his celebrated dogma that immediate production and enjoyment are not the principal thing, but "Productive Power," and that, to build up a manufacturing productive power, it is worth while to tax an agricultural community.

Round this dogma the Free Trade and Protectionist argument in all countries of the world except our own, which had already reached List's third stage when his book appeared and to which, therefore, it had no application, has centred. It is on it the Protectionists have achieved such victories as they have up to the present won. It is the well-known plea for the protection of infant industries until they are strong enough to take care of themselves, but always in seeking to guide his countrymen through what he called the three great economic phases of development, through Free Trade to Protection, and then back from Protection to Free Trade, this national idea was the dominant one; and he taught that the trade of the country must be controlled and restricted by imposts on *either* manufactures or agricultural produce so as to produce

as nearly as possible this internal economic equilibrium; in short, that nothing should be imported that can reasonably be produced within the limits of the country itself.

Germany in late years has pursued the policy of its most celebrated Protectionist teacher, and, although, as we shall see later, a great expansion of German manufactures was inevitable under any fiscal system, yet this expansion has been stimulated by the protection accorded to her manufactures, until, according to the "National" theory, it is now excessive.

Professor Wagner, of Berlin, views with the greatest anxiety what he regards as the present excessive industrialisation of Germany, his views on this matter are shared by many others, and it cannot be doubted would be held to-day by List, were he alive. The tendency of the new German tariff is to redress the balance. While it adds slightly to the duties for the protection of manufactures, it adds much more largely to the duties for the protection of agriculture. Therefore, while it may restrict our direct sales to Germany, it must still more restrict her power to compete in other markets with us. This is quite as it should be, according to the Nationalistic theory. It is better that they should sell less manufactures, if they also buy less food, and if, incidentally, they have to eat less and wear less, that is their proper sacrifice to a patriotic theory.

This is the theory, in as few words as I can put it, of the theoretical, "historical," and so-called "scientific" Protectionist economist.

To follow it is, from the point of view of the world at large, avowedly economically, a policy of the "second best." It is directed, not to extend international trade, but to contract it within the smallest possible limits. Nevertheless, we find it accepted and acted upon, for the present, alike by foreign nations and our self-governing Colonies.

The great question put to us to-day is not what is the best commercial policy for the world, but what is the best policy for Great Britain, in a world of nations which have adopted more or less thoroughly a Protectionist policy? Is it possible for us to persevere in our solitary course of Free Trade and live; or shall we turn our backs on Adam Smith and Cobden, and put ourselves into line with other nations, and follow List and his school?

APPLICATION OF PROTECTIONIST THEORY TO THE UNITED KINGDOM.

We have, therefore, now to consider List's theory of a self-contained nation, "with its agriculture, manufactures, commerce, and navigation developed in strict proportion," in its application to England. If this ideal be accepted, with this Kingdom for its unit, then it must be admitted our Free Trade has been wrong, our manufactures, our shipping, and most of our foreign trade are wrong. We have twenty millions of people in this country who have no business to have been born. And the most wrong of all are the Tariff Reform Commission, who are aiming at increasing still further this national

disease, the excessive development of our manufacturing side. What we must do on this theory is to tax imported food, so as to encourage its production at home, let in foreign manufactures free, so as to discourage our own overgrown industries. By this means, if severe enough, we should bring back some of our own surplus people to the land, and starve out or drive out others until the blessed equilibrium was established. The new German tariff is a deliberate attempt of this character, practised upon a nation which, as yet, imports a comparatively small portion of its food.

The application of German economic theory, and American economic practice, in this form, with this country for its self-supporting economic unit, we may surely rule out of the range of practical politics. But the English Tariff Reformer of the neo-German Nationalistic school does not take this Kingdom as his economic unit. His unit is the Empire. There is no lop-sided development of manufactures in the Empire taken as a whole. Here is his ideal economic national unit. But he here comes face to face with an obstacle completely insurmountable. The unit refuses to unify. The British Empire is a great fact, but, unfortunately, it is not an economic unit in the sense required for a "National" economic policy. We have India practically a Free Trade country, with which we do as much trade as with Australia, Canada, and the South African Colonies put together, and we have these self-governing Colonies, each determined to work out its own national

economic development in its own area, on the lines of strictly national—that is, Colonial—Protection. To speak quite frankly, I have at this moment more hope that Germany will find her new tariff insupportable, and relax it—I have far more hope, even an expectation, that the United States will extensively reform her tariff in the Free Trade direction than I have of a similar movement in any of our self-governing Colonies. We have to acknowledge the candour of our Colonial brothers. Throughout this controversy they have made it clear that, preference or no preference, their ideal is the self-contained nation—their national economic unit is the Colony, not the Empire; and the means they take, and mean to continue to take, to secure this end, is Protection, effective Protection, of their manufactures. Notwithstanding any small preference they may give us over other foreign countries, foreigners we remain, and the national economic unity of List is accepted by the Colonies, each for itself, as the ideal at which it aims—the economic equilibrium which will enable it to do without any foreign trade at all, either with the Mother Country or with other foreign countries.

On the theory of List and his followers, which our Tariff Reformers accept, and are doing all they can by means of translations to make known and popular in this country, all these nations, and especially our own Colonies, are economically and politically right in being Protectionist in the present stage of their industrial development, with the exception

of Germany and the United States, who have advanced far enough for the third or Free Trade stage. But even Germany and the United States, although not economically justified, may be politically right in retaining a Protectionist system. At any rate, at present they do retain it.

The practical problem before us, therefore, I repeat, is not the question whether, in the abstract, Free Trade is "the best policy for England." On every purely economic theory it is. Adam Smith and Cobden teach that it was always right for England and for other nations, too; List and his school teach that for England it was not always right, but it is right now in her advanced stage of economic development. So far the English Protectionist would agree with us. The position is that most foreign nations, in matters of trade, have adopted the tactics of war, and we find ourselves solitary Free Traders, one-sided Free Traders, in a "world of Protectionists."

Surely, then, of all nations on earth we ought to be the most miserable. Every other nation is schooling itself, by painful tariffs, to do without us, and we are becoming more and more dependent upon others, and what will be the end of it?

CONSEQUENCES IF WE PERSIST IN FREE TRADE.

The deductive economist of the Protectionist school proves to us by deductive reasoning what the end ought to be and what it must be; the whole catalogue of woes is set forth by Mr. Balfour in his

"Economic Notes on Insular Free Trade." Our staple manufactures, the exports in which we used to trust, will be shut out; we shall have to pay for our imports all the same. How are we to do so? We are even now being "engineered"—Mr. Balfour's word—by the foreigners' tariffs out of one trade into another to pay for them; "necessarily" they say all these changes are from superior to inferior trades; meanwhile our manufactures are becoming continuously less and less necessary to the foreigner, we are at a disadvantage in the exchange, we must "necessarily" not only sell our inferior goods, the produce of low-class and sweated labour, but we must also constantly reduce our price to get them taken at all. It will become, in the language of Mr. Balfour, first "difficult," then "impossible," to obtain and pay for our imports; then will follow suffering, starvation, and wholesale emigration, until little England is reduced to a little fifth-rate, self-feeding state. All these things will happen, says the deductive Protectionist economist—must happen—have begun to happen. Meanwhile the British capitalist manufacturer, excluded from his old markets, takes himself, his capital, enterprise, and machinery to other countries, where he flourishes greatly under the shade of a tariff wall, when he has got to the right side of it.

These in short, and as fairly as I can put them, are the conclusions as applied to England the Protectionist deductive economist deduces from the theory I have already explained.

SECTION II.

THE TWO THEORIES IN THEIR RELATION TO GREAT BRITAIN, TESTED BY THE EXPERIENCE OF SEVENTY YEARS.

A theory however plausible, and deductions from it however apparently logical, must come to the test of the facts of life. Can the Protectionist confirm and prove his theory from the world of facts and figures which are available for the purpose? He maintains that he can.

I. THE PROTECTIONIST CASE FROM EXPERIENCE.

The one great fact upon which all English Protectionists base their whole case, which they force Free Traders to face and answer if they can, is the phenomenon of the rapid rise and growth, not only of the total national product, but especially of the manufactures, and still more of the export of the manufactures of certain Protectionist countries (particularly the United States and Germany), under their systems of protective tariffs. The more advanced Protectionist countries have increased, not only their production of their manufactures, but their exports, in the last thirty years at a greater rate than England, a Free Trade country, has done. What more complete vindication of the tariff system under which this has been effected can be desired? they ask. All the arguments of Tariff Reformers are based upon this undeniable fact—are elaborations and illustrations of it.

What is the significance of this striking phenomenon? We Free Traders must face this question fairly, and show, if we can, that it is due to other causes than the protective tariffs, under which it has come into existence.

I decline to consider America, for any conclusion drawn from this fact in regard to America is useless for any economic purpose. With such a raw material as the best part of the richest of continents, that of North America, not half developed, with its land, its rivers, its mineral wealth, its immigrant labour, it is beyond the power of human folly to arrest its growth. Germany is a fair parallel, and may be taken as the strongest case in point. The great cause of the rapid rise of the manufactures of Germany and other nations is not difficult to discover, for it is the most conspicuous phenomenon affecting the human race in recent centuries. It is what is known as the "Industrial Revolution." With the forces of nature placed by modern science and invention at the service of man, it is no longer necessary that nearly the whole population of a country should be employed on the land to raise mere food, and in the primitive rural industries, and a large proportion has transferred its labour from agriculture and village handicraft to manufactures, and removed from the country to towns.

Mr. E. Atkinson has calculated that under favourable conditions, such as obtain on a great wheat farm of Dakota or Manitoba, one man's work for one year of 300 days will produce sufficient wheat

to feed 1,000 people for the year; that it can be carried through the flour mill and put into barrels, including the labour of making the barrel, at the equivalent of one other man's labour for one year; that it can be moved from the far West to a flour mill in Minnesota, and thence to the city of New York, and all the machinery of the farm, the mill, and the railroad can also be kept in repair at the equivalent of the labour of two more men; "so that the modern miracle is, that 1,000 barrels of flour, the annual ration of 1,000 people, can be placed in the city of New York, from a point 1,700 to 2,000 miles distant, with the exertion of the human labour equivalent to that of only four men, working one year in producing, milling, and moving the wheat."

This is an extreme example of a universal movement. As the agricultural population is liberated, and the mechanical arts grow, new occupations are necessary, new wants arise, new manufactures are born. In this stage of social and economic development, in this migration of the greater part of the population from occupations immediately connected with the cultivation of the soil to manufacturing and other pursuits, which removed them from rural districts and collected them in towns, we were a generation ahead of Germany and other countries. Thirty years ago the revolution in this country was practically accomplished, while in Germany it had scarcely begun. At the beginning of the last century 80 per cent. of the population of the countries which now form the German Empire were engaged in agricul-

ture. In 1870 two-thirds of the population was agricultural, while in England and Wales at the same date the proportion employed on the soil was not 17 per cent. Since that date the proportion of the population of Germany engaged in agriculture has been reduced by one-half, the population inhabiting large towns of more than 100,000 inhabitants has increased sixfold, that inhabiting medium-sized towns of from 20,000 to 100,000 inhabitants has increased nearly threefold. Germany has been drafting into the cities a large half-employed, underfed, under-paid rural population to found her new industries. We had no longer this resource, it has been long practically dried up, our agricultural counties are to-day underpeopled, and the land is crying out for labour.

The sufficiency of this explanation of the somewhat more rapid expansion of German manufactures and exports than those of the United Kingdom must be obvious to anyone who considers the importance of the Industrial Revolution of the Nineteenth Century in its effect on the conditions of human life in Western countries. The movement to the towns in Germany has doubtless been accelerated by her past protective policy in favour of her manufactures, she will now probably check it by her new "agrarian" tariff. But the process itself is a natural and inevitable stage in the development of a modern nation in modern conditions. It was inevitable under any fiscal system, and was anticipated by every man of reasonable foresight. That during its progress the growth of German manufactures and exports should

have been more rapid than our own is a consequence equally inevitable. It was the necessary result of modern forces far more powerful than tariffs. That the disparity was not greater during this period of the absorption of a great supply of cheap labour is not only a signal proof of our national efficiency, but furnishes a strong presumption of the superiority of our fiscal policy.

It is likely that in Germany, as in this country, this movement of population has now almost spent its force; for, although the proportion of the population engaged in agricultural pursuits remains double that existing in the United Kingdom, it is no longer excessive. The fact that the natural increase of the population in Germany is double that of the United Kingdom, that the birth rate is 25 per cent. higher than our own, and nearly 30 per cent. higher than that of the Colony of Victoria, will doubtless tend towards maintaining the growth of her industries, and of the exports necessary to pay for her increasing imports of food. On the other hand, the effects of the new and distinctly Nationalistic tariff on the condition of the manufacturing working classes must tend both to decrease the birth rate and revive emigration. An analysis of the conditions which produced and accompanied the recent expansion of her manufactures and exports leads to the conclusion that the Protectionist policy of Germany has been rather a disturbing than a governing factor in her industrial evolution. It doubtless accelerated its earlier stages, it has distorted its course of pro-

gress, and at present, under the new tariff, it retards the natural manufacturing and commercial expansion of the country in a manner approved by Professor Wagner and other Nationalistic economists, and doubtless intended by its "scientific" authors; and yet in the whole course of the fiscal controversy I have not met with one argument by induction from experience which was not based upon the erroneous assumption that the rise of manufactures in foreign Protectionist countries was almost entirely due to their protective tariffs.

2. THE FREE TRADE CASE FROM EXPERIENCE.

The nature of the proof required.

In the days of Adam Smith the argument for freedom of trade was necessarily a purely deductive argument—that efficiency would be an effect of freedom, that the division of labour, which in the village and the nation had so incalculably increased production, would have a like effect if brought into operation on an international scale—that international trade is in truth simply an exchange of commodities, and that a "favourable" balance of trade to be paid in gold cannot be maintained permanently, and, if it could be, would be futile. These and other similar unanswerable propositions were the arguments of Adam Smith, and the logical deduction from them was Free Trade.

With two-thirds of a century of Free Trade practice behind them, British Free Traders have now so great an accumulation of experiences, which add

historical proof to inherent probability, that their difficulty is how to focus it all so as to bring it within the range of vision of the ordinary human being.

The general arguments for British Free Trade have thus altered in character; the old deductive argument has been supplemented and almost superseded in the arena of controversy by inductive statistical reasoning. The argument from experience has been added to the argument from reason, and the whole general case is thus far stronger than it was in Richard Cobden's days.

But the present-day Free Trader has to meet another and more plausible, if not more formidable, argument. It is that which I have endeavoured fairly to put forward, and it may be re-stated in a sentence thus: Cobden's forecast of a rapid universal victory for Free Trade principles has not been realised. The Nationalistic Theory has been adopted by almost every civilised country but this country. Whether it is a better theory or not than that of universal Free Trade is not the question; as put to us now, the practical question for us is, Can we trade on Free Trade principles with nations who trade with us on Nationalistic Protective principles? Can one-sided Free Trade go on for ever? Peel and Cobden answered this question, which, it must be admitted, they believed would never become the practical question it is to-day, by abstract deductive reasoning in the affirmative. "Hostile tariffs are best met by free imports," they said. After sixty

years of experience we have now to ask ourselves the question, Does this experience confirm their dogma? Does the present position of British trade, do the indications of the future, do the lines of the development of contemporary international commerce enable us to supplement Peel's dogmatic affirmation, by induction from the ample material available? This is the task the Free Trader must fairly face to-day.

I shall endeavour to state the case of the British Free Trader, first, in its Static aspect, by examining the position to which two generations of Free Trade practice has brought us—the absolute and relative position of the international trade of this country to-day; second, in its Dynamic aspect, by considering its relation to the contemporary movements and the lines of development of international trade; how far a policy which may have been wise and successful in the past is likely to continue to succeed in a world which I assume, for the purpose of this argument, to be definitely committed to a Nationalistic policy.

The British Free Trade Case : (I.) Static.

Tariff Reformers assume as self-evident that this rise and growth of foreign manufactures has been at our expense, to our loss. Is it not a fact, they inquire, that sixty years ago England was the workshop of the world; we were not only first but alone in the production and export of the new manufactures? Now other, and Protectionist, nations have approached, and in some respects passed us, and

notably in the production of iron we have fallen back to the third place. Is not this in itself a sufficient proof of the error of our policy?

The dogma that as England was once the sole workshop of the world, she should have retained the trade of the world in its infinite expansion—in other words, that the world should cut its coat according to England's cloth—is a proposition too absurd to require serious refutation. Yet it is an argument constantly in the mouths of our Protectionists, notably in that of Mr. Deakin, who appears to combine a belief in it with a determination that the Commonwealth of Australia shall be an exception.

We could not, of course, keep the whole, and the only useful question is, What have we kept, and how does it compare to-day with the new manufactures of foreign countries and their exports, the conditions under which these goods are made, and the condition of the people who make them? Any competent examination of the general production of the various manufacturing countries and their exports of manufactures will show three things:—

(a) We are keeping the first call on the trade of the world.

(b) We are keeping the best of the trade.

(c) We are keeping as much as we can do *in good times*.

And this position we maintain with a higher level of nominal wages, a still higher level of real wages, and shorter hours of labour than any of our Continental neighbours.

(a) *We are keeping the first call upon the trade of the world.*

That we are keeping the first call upon the trade of the world is a broad, and perhaps a bold, general proposition to state. It can only be tested by a broad survey of the courses of the main streams of international trade, the significance of which, persons who are unable to extend their vision beyond an import of window frames, or a contract for foreign horse shoes, are incapable of estimating. Such a comparison of the main streams of the distribution of our exports, with those of other and competing exporting countries, shows that the first call of the world is for British goods produced under Free Trade conditions; and that in foreign markets of all kinds we maintain our supremacy—

1. In the neutral markets of the world, *i.e.*, in those countries in which the import duties do not aim at the protection of native industries, as in China, India, and Turkey. Countries of this class send their exports largely to the Protectionist countries; they receive payment for them principally in British manufactures. In consequence, our exports to these countries greatly exceed our imports from them, and the nations receiving the produce of these countries have to settle the international account with us. Thus, China exports goods to the continent of Europe to more than double the value of her exports to Great Britain, but she imports from Great Britain goods to more than double the value of her imports from the continent of Europe. The

exports of India (by sea) to all foreign countries amount to almost double the value of her exports to Great Britain, but her imports from Great Britain are of more than three times the value of her imports from all foreign countries.

2. In the markets of the newer countries in which a deliberately adopted protective policy has not yet worked out its full results—as in our Australian Colonies and such countries as the Argentine Republic. In these countries the position is very much the same as in the neutral markets—the imports of British goods into the ports of the Argentine exceed the exports of Argentine produce to Great Britain by more than 50 per cent., while their imports from all other countries than Great Britain do not amount to half the value of the exports of Argentine produce to these countries.

That the great export of Australian wool to the continent of Europe is paid for by the export (without any preference) of British manufactures, is shown by the fact that the total Australian exports to other countries than Great Britain exceed those to Great Britain by a very considerable amount (13 per cent.), while the imports from those countries fall short of the imports from Great Britain to a still more considerable extent (about 50 per cent.).

It appears fair to conclude that in the two classes of markets, the neutral and the imperfectly protected markets, the superiority of British organisation and enterprise, and the superiority of the British articles of export in quality and price, enable us to retain

the first call upon the trade, and lead to an enormous increase (in the neutral markets I may say the doubling) of what our export trade with these countries would be were it confined to a direct interchange of commodities.

It remains to consider the fully protected markets, that is to say, the countries in which a complete system of protection has been in force for a sufficient number of years to enable it to produce all the effect in restraint of international trade which it is capable of producing; such nations are Germany, France, and the United States. Year by year these countries find themselves enormously in our debt; first, for our purchasing for them in the way I have shown a great part of their requirements from the outer world; secondly, for our shipping services (we carry more goods for the group of the ten protected countries than we do for ourselves—that is, to and from the ports of Great Britain); and thirdly, for the gold they require for the renewal and expansion of their circulation, and for the arts—that is, for gold considered as a commodity, annually produced, distributed, and, in part, consumed. This gold they procure in great part through Great Britain. To keep straight with the world, and especially with us, they must export; they, consequently, do export to us considerably more than they directly receive from us. But they cannot force us to take anything we do not want; and the conditions under which they produce their export goods—their longer hours of labour, their lower wages—are

an indication, and in part a measure of the relatively greater effort necessary to bring their export goods into effective competition in the markets of this country and of the world. The practice of dumping, so far as it is practised, is itself an evidence of the shortage of a healthy and remunerative demand, and at the same time of the presence of economic forces of which the human agents are probably unconscious, and which demand exports to balance international accounts. This very short analysis of the main courses of international trade, so far as they affect this country, I think is sufficient to show that we hold, under our present Free Trade conditions, the first call on the trade of the world.

(b) We are keeping the best of the trade of the world.

That we are keeping the best of the trade of the world is undeniable, if we are considered as what we are and must be, a manufacturing and commercial people. Whether it is a better or happier lot to produce and export agricultural and pastoral produce, I am not prepared to maintain; I can only express my surprise that so many nations of the world are so anxious to escape from this Arcadian state. But for us this is impossible, and we must compare like with like. The proposition that, as a manufacturing and commercial people, we are keeping the best of the trade of the world can be proved by a detailed comparative examination of that portion of our exports which passes through our Custom houses, and is published monthly in the Board of Trade

returns, and annually in the Statistical Abstracts of this and foreign countries, which my readers can consult for themselves. They show that our exports are of the most desirable kind, in the main the produce of our most skilled and best-paid labour. But it is shown to a still greater extent in the character of what is called our "invisible" exports—that is our shipping and other services, which are of a still more desirable character than even our material exports, and are of a nature in which we maintain a lead in many cases amounting to a virtual monopoly. (The question of this section is more largely discussed in a later section, that under the heading, "Is Our Trade Degenerating in Kind?")

(c) *We are keeping as much as we can do of the trade of the world in good times.*

That we are keeping as much as we can do of the trade of the world in good times, which is my third statical proposition, will probably not be accepted by Protectionists so readily as the two former arguments, but the experience of the late seasons of prosperity and "booms" in trade amply prove it—that in good times we are keeping as much as we can do. The Protectionist at this point asks, "Is not the German taking our trade and throwing our people out of employment? What about the unemployed millions in this country, robbed of their work by foreign competition?" The answer to this persistently reiterated query is simple and direct. There are no unemployed millions of workers; they simply do not exist. We have to-day no available

reserve of unemployed for our ordinary industrial purposes. We are a fully employed nation, our existing industries are sufficient to absorb all available and willing workers *in good times*. Take the year 1899, or, to almost the same extent, the year 1906 and the greater part of 1907, as examples of good times. The comparative stagnation of the building trade in the latter years renders the former year the better for the purpose of illustration. It was a year of peace and booming trade; at that time our prosperity reached saturation point, we had as much as we could hold; we all know every mill, factory, mine, and ship, and every man had the choice of two jobs. Orders of all kinds were refused by our manufacturers, as I know by my own experience, both in my own business and as a railway director—orders which overflowed to the foreigner because we could not take them. It was the year in which the official statistics of unemployment reached their lowest recorded level—2.2 per cent.—of that part of the working population covered by the returns. It is frequently objected to the use of these figures of unemployment that they apply only to skilled workmen, members of the trade unions which make the returns. This is true, and it is doubtless also true, although we have no statistics to prove it, that, in times of depression, the proportion of the unemployment among the unskilled workers is greater than among the skilled. But in the good times of abounding trade the opposite is the case; again I speak from pretty extensive observation and

in the absence of official statistics—and I think it cannot be denied that in 1899 every unskilled able and willing worker in the country had a choice of employments. That 2.2 per cent. of the skilled men were out of employment is no indication that the total supply of skilled labour exceeded the total demand by 2.2 per cent. These unemployed men belonged to trades which, for some special cause, such as changes in manufacturing methods or fashion, had been left out of the movement. They could have been absorbed over and over again by the trades in which operations were limited by deficiency of labour, had they been fit and willing to undertake the work which there were not men enough to do. And yet this is a period in which notably German and American exports expanded more than our own, and the Tariff Reformers tell us this was at our expense. If this were so, they are bound to tell us how we could have taken them on, what we could have done more than we did, or what we could have done better than we did.

“If a man were Ferdinando,
 He can do no more than he can do,
 And he who more than this expects,
 Is wanting in his intellects.”

HUDIBRAS.

It may be accepted as proved by the experience of good times that our industrial organisation is thus equal to the powers of our working population, and in such times to foster and stimulate one industry by Protection could not add to the sum of

employment, but would be at the expense of some other more deserving industries, and at the expense of the consuming community in addition.

The Phenomenon of Unemployment.

Whence, then, appears the phenomenon of unemployment of the fit and willing workers? It is necessary to distinguish this from the great general problem of poverty, that of the aged, and the widows and fatherless children, the sick and disabled, and the unemployable. The unemployment of the willing and fit is a much smaller question; it is doubtless in part due to the waste by industrial friction, to the supersession of one trade by another, and one class of workers by another, due to the introduction of machinery, changes of processes or to changes of fashion. It is thus the few *chronically* unemployed fit and willing workers are produced. But this class is very small, and the problem of dealing with it is one well within the power of organised effort, without having recourse to heroic remedies. This class of unemployment exists in all countries, Free Trade and Protectionist alike, and no sensible Protectionist would seek to abolish it by Protection, for this would be to protect his country against the introduction of new industries and superior processes.

But bad times succeed good, and with bad times appears really extensive, but not chronic, unemployment in the best employed State and in the best regulated trades. In both Protectionist America and

Protectionist Germany the swing of the industrial pendulum appears to be greater than in this country, and greatest in their most protected industries; and it is the backward swing which is the great cause of the unemployment of the fit and willing worker. The problem is almost entirely that of mitigating and tiding over bad times. It must be remembered that under these alternations every trade produces its own employment, and as a consequence its own unemployment in bad times, and it is quite obvious that as the substitution of fostered and protected industries for healthy and natural industries cannot add to the sum of employment in good times in a nation already fully employed, so it cannot diminish the sum of employment in the bad times which follow. For, I repeat, it is a fact too often overlooked that every trade produces not only its own employment, but its own unemployment, and to import a trade by tariffs and taxes is not a measure that will absorb the unemployed in bad times; it is to import unemployment as well as employment. This the Americans found when, at an enormous cost to other unprotected industries, they violently imported a tin-plate manufacture. That I might read a full report of Mr. Chamberlain's speech in South Wales, in which he gave this as a striking example of pure profit to America and pure loss to us, I bought a Cardiff newspaper, and in the very same issue that recorded his speech I read these words in their market reports: "The condition of the American tin-plate industry is most unsatisfac-

tory, over half the mills being closed down, and the American Tinplate Company has reduced its quotation for plates by 20 cents on the 100-lb. box. Little business is said to be coming in from canners. Independent sheet mill owners have secured a reduction of 20 per cent. in wages." No such state of affairs at that time or since has existed in South Wales. America had imported this unemployment, and her unemployment is always greatest in her protected industries. It is obvious the problem of the unemployed must be attacked by other methods than tariffs.

It is equally obvious that until some method is found of equalising employment and eliminating the lean years, the test of a nation's industrial employment can only be the degree to which it is employed in *good times*, and the amount the average of employment from year to year falls below this maximum. The application of the first test shows that our existing industries absorb all our available labour in good times; that of the second, that they possess greater stability and show less fluctuations of employment than those of protected countries.

Summary of the Case (Static).

From a survey of the present condition of the British manufacturing and export trades statically, that is to say, of the position in which our Free Trade policy has placed us to-day, we cannot avoid coming to the following conclusions.

First, that in the infinite expansion of the consumption of the world it was a physical impossi-

bility under any tariff system, or under a system of universal Free Trade, that England should remain the sole workshop of the world, and that the rise of other manufacturing nations was inevitable, and has been beneficial both to themselves and to the world.

Second, that this expansion of industry has not been at our expense, for, as a matter of fact, which can be observed and proved—(1) We are keeping the first call on the trade of the world; (2) we are keeping the best of the trade; (3) we are keeping as much as we can do in good times.

Third, that owing to the low price at which her policy of free imports enables her to buy what she requires for her work and life, and to the general efficiency of her working population, England is able to retain this position while paying higher nominal wages, and much higher real wages, with shorter working hours, than her Continental neighbours.

Fourth, that the problem of unemployment of fit and willing workers is common to all countries, and is a malady to be treated by other means than tariffs; that the importation of new industries by protective duties means the importation of unemployment as well as of employment; and that our Free Trade policy has to some extent moderated the alternation of good and bad times, which is the main cause of unemployment, and mitigated the severity of the effects of bad times on our industrial population.

Thus we reach the conclusion by induction from the ample experience of sixty years, which Peel and Cobden had reached by abstract reasoning. We have

found it true that the best way to meet hostile tariffs is by a policy of free imports.

The British Free Trade Case: (II.) Dynamic.

There are Tariff Reformers who will admit the main part of the statical case. They will admit that Free Trade has up to the present, or rather almost up to the present, been our best policy. But they point out that conditions are changing and have changed. The nations of the world who have adopted nationalistic protective systems are one by one realising their national aims, they are becoming independent of us and our goods. Accepting this as their general proposition, they deduce the following "logical conclusions" as the consequences which must "necessarily" befall, and are now befalling, solitary, undefended, Free Trade England.

(a) That our markets are contracting, and we are trading at a constantly increasing disadvantage.

(b) That our trade, if not yet diminishing, is degenerating in kind.

(c) That British capital and British labour are flying to the protected countries, and will inevitably do so to an increasing extent.

These three conclusions, deduced as "necessary" and "inevitable" consequences of the general statement of the fact (quite undisputed) that almost all nations of the world except England have adopted the system of nationalistic protection, can also be examined inductively in the daylight of present-day facts.

(a) *That our markets are contracting, and we are trading at a constantly-growing disadvantage.*

In the light of the trade returns of the last three years, the statements with which the Tariff Reformers began their propaganda, that the exports of our manufactures were actually stationary or decreasing, has become too ludicrous to be noticed, except as a curious example of the power of a theory to distort an investigation of facts. But the theory they still hold, and it was best stated by Mr. Balfour in his "Economic Notes." It may fairly be put thus : As the area of national protection grows, so our accessible markets contract in number and area ; although our exports may not yet show signs of diminishing, they must "inevitably" do so in the near future. Our imports are "necessities" to us, and are becoming year by year more necessary ; our exports are not "necessities" to other countries, and are becoming year by year less necessary. Therefore, "necessarily," we can only induce other countries to accept our exports, which is our only way of paying for our imports, by constantly reducing our prices ; that, in consequence, our exports will become, first, "difficult," then "impossible," and our imports, first, "costly," then "unattainable."

These assumptions, if accurate, would by this time be susceptible of historical proof. They have, on the contrary, received disproof, as I have shown in the previous section, in which British trade is considered statically.

That we are not reducing our prices ruinously in

order to get our exports "accepted at all" is proved by the figures given by the President of the Board of Trade in answer to a question I put to him on February 3rd of this year (1908), showing that, although the prices of our exports and imports have greatly decreased since 1873—they have decreased almost to an equal extent—we have reduced the prices of our articles of exports by 44.3 per cent., while the foreigner has reduced his prices to us by 44.5 per cent. We are therefore getting rather more, and not less, foreign goods for our goods.

However clear it may be to the Protectionist theory that our markets *ought* to be contracting, and that our foreign exchange of products *ought* to be more and more disadvantageous, it is even more clear to the candid inquirer that what *ought* to happen and "must happen" does not "come off" according to the logical programme.

(b) That our export trade, if not yet shrinking in quantity, is degenerating in kind.

We are being "engineered" by foreign tariffs, to use Mr. Balfour's phrase, out of our good old "staple" export trades into other and "necessarily" inferior trades. The Tariff Reform Commission point out that whereas in former times we used to make iron for the world, now both America and Germany have passed us in the production of pig-iron, and that our exports of that article of one of our greatest staple trades is insignificant. Professor Ashley says, "England is turning apparently more and more to

exports, the products of cheap, low-grade, and docile labour. Let us see," he continues, "what are the comparatively new exports which are taking the place of the old? Coal and unmanufactured clay, apparel and slops, pickles, vinegar, and preserved fruits, oil and floor cloth, caoutchouc manufactures, soap, furniture, cabinet and upholstery wares, cordage and twine. Now, I believe that all these are cases in which the bulk of the labour employed is cheap and unskilled."

What is our reply to these criticisms? It is that most satisfactory of all possible replies to a disagreeable proposition—a flat denial. Our exports are not inferior, the examples the Tariff Reformers give do not prove it, the examples they do not give prove the contrary. They complain that we no longer make pig-iron for the world as we did when our railways were the most extensive system in the world, and we were teaching other nations how to develop their own. This is their favourite example of our decline. To anyone who has the most superficial knowledge of our slender resources, both of iron ores and furnace coking coals, in comparison with the United States, a country which has now a railway mileage ten times as great as our own, this complaint will appear the complaint of ignorance. Instead of supplying the world, as in the old days, America, Germany, and England, the three great iron-producing countries, each produces about the quantity of this raw material it is able to work up, and this seems to me to be a satisfactory arrange-

ment of this particular trade. To make pig-iron for the world is not my ideal destiny for this country; that the Black Country should extend south from Birmingham as it extends north, until it fills the rich and happy garden valley of Evesham, now devoted to Professor Ashley's pickles and jams and preserved fruits, for example, would be to sacrifice the better for the inferior industry.

Of Professor Ashley's list of the inferior export trades into which he states we have been "engineered" by foreign tariffs, I have only three remarks to make. In the first place, they are very small, in the second place, they are not inferior to our old staple trades, and, in the third place, we are not being "engineered" into them. I exclude the export of coal, for with expert knowledge I differ from Professor Ashley on this point, and I regard this as one of our best exports. It forms the basis of our exchange in bulk for our bulky imports. More than half is sent abroad for navigation purposes, and more than half is for British consumption abroad. In his first two trades, apparel and slops, our exports have not increased at all, but largely decreased during the years of the fiscal controversy, since 1902; in his next five trades, pickles, vinegar, confectionery, jams, and preserved fruits, there has certainly been considerable expansion, but surely these are healthy and desirable trades; in all the other trades he enumerates in the same four years the increase does not amount to two millions in the same period, or 28 per cent., while our total export

trade in British goods has increased by more than 50 per cent. An examination into the figures of the exports of the trades selected by Professor Ashley as examples of inferior and undesirable trades to which "we are turning more and more," proves that we are, in fact, turning to them less and less. I apologise for troubling my readers with these petty figures; I do so to show to what shifts our deductive Protectionist economists are put when they leave their general conclusions, that such things must "necessarily" be, to examine the facts as they are.

All his examples are trifling when set beside our greatest *new* trade, and greatest *new* export—our shipping trade. I say new, for our supremacy in shipping dates only from our adoption of Free Trade, and is by universal consent a product of that policy. Its gross revenue is quite equal to that of all our home railways put together, which amount to about 110 millions. I will not trouble my readers with detailed figures, but a few main facts about this trade are easily remembered, and worth remembering. Vast as our foreign trade is, it is only one-sixth of the international trade of the world, but our ships carry, not one-sixth, but one-half of the trade of the world. We carry more goods from foreign port to foreign port—trade which never touches this country at all—than all our British trade amounts to, we carry more for the celebrated group of the ten Protectionist countries alone than we do for ourselves. To compare any other nation with us in this trade is ludicrous; to compare all other

nations put together with us is to compare the inferior in value and efficiency, if not in tonnage, with the superior. That we have been "engineered" into this lonely pre-eminence in this trade partly by our own Free Trade policy, and still more by the Protectionist policy of other nations, no person who is qualified to have an opinion at all doubts. The nations who, by their tariffs, restrict exports of our "staple" manufactures to their shores, are forced by the natural law from which commerce cannot escape to accept the payments for their exports to us largely in the form of our shipping services. Is this a decline from higher trades to a lower one? Mr. Chamberlain says it is. At Preston he said, "What does the working man get out of these invisible exports—out of the freights of ships? He gets very little. The wages in the shipping trade are, I am sorry to say, a small and diminishing quantity." I wish to speak respectfully of Mr. Chamberlain, so I will only say by way of criticism that, as a piece of economic analysis, this appears to be—incomplete. The shipping trade gets over 100 millions a year into its pocket. The railway companies get a similar amount, and pay nearly half of it to their shareholders; the cotton trade gets as much, but it has to pay 40 millions to the foreigner for its raw material. The shipowners work on a capital of less than one-seventh of that of the railways, and what their shareholders get is a minute portion of their gross receipts; the rest, less a small sum for foreign port charges, is all dis-

tributed to pay the best class of British labour. Their ships are built and engined, re-fitted, and repaired in British yards and British engine works of British material, officered and engineered, and mostly manned by British subjects, provisioned in British ports, insured in British offices, and coaled with British coal. No other British industry gives so great an amount of employment to British labour of the highest class. To an island people our most necessary trade, politically our most imperial and coveted trade, economically our largest trade, and industrially our best trade, is our shipping trade. It shows no signs of losing its lead or any portion of its lead. In the last year of which we have the returns—1906—we added to our shipping tonnage ten times as much as Germany added to hers, and Germany is the only nation, except Japan, with a growing mercantile marine. Our shipping trade has only two things to fear—any departure from a Free Trade policy by England, or the abandonment of Protection by America and other countries. This is the great example of the success of foreign Protectionist tariffs in “engineering” us out of some old trades into other new trades. They have succeeded in “engineering” us out of some portion of our old staple trades, but they have “engineered” us into a better trade.

But there are other examples. Time would fail to describe the economic process by which the Protectionist policy of other nations has secured the supremacy of the “Land of free imports” in the

business of merchants, textile spinners and manufacturers, engineers and machine makers, distributors, brokers, bankers, and insurance. To say that we are being "engineered" into inferior trades is to say that bankers, merchants, brokers, shipowners, and officers and crews, skilled engineers and machine makers, are inferior to the old furnace men and puddlers, or the naked and parboiled men I remember in the sugar houses in my boyhood. No, British trade is neither decreasing nor degenerating.

(c) That British capital and labour are flying to Protected countries, and will inevitably do so to an increasing extent.

This phenomenon, while only half understood, has furnished perhaps the most telling argument of the British Protectionist. The British manufacturer, he says, shut out of a foreign country by a tariff, takes himself, his capital, his machinery, and sometimes his men, and flourishes mightily abroad, instead of starving at home, to our national loss. The fact that these emigrations of capital have taken place cannot be denied, but they are not so frequent now as they were in the early days of American Protection. But notice what follows to the Protected State. Notice how retribution follows, and in the end restitution, too. When its protected infant industries have grown to be protected giants, when they aspire to an export trade—a "world trade"—they find that, on the whole, the best results in product for a given expenditure can be obtained in the

"Land of free imports," and one after another they establish their works in England. They bring their German education, their American enterprise and organising power, and their capital to this country, when they establish themselves on British soil, pay British taxes, and employ the highest and best paid of our working population.

There can be no doubt that, during the last few years, the tide has turned, and this immigration of capitalist aliens has much exceeded the flight of British manufacturing capital to protected areas. It is one of the most conspicuous of the developments of English trade. And, observe, it is the very best firms who feel most strongly the attractive force of the Free Trade country. It is the largest maker of electric machinery in the world which has come from America to establish itself at Rugby; it is the largest maker of mining machinery in the world which has come from Chicago and San Francisco to start near London; it is the largest sewing machine maker in the world who has established his immense works at Glasgow. Finding their European trade hampered by retaliatory tariffs, there is a growing disposition among the most wealthy and progressive American manufacturers, especially those who are cultivating and depending more and more upon an export trade, to look forward to the establishment of works in England, by which they would not only manufacture more cheaply, but their products would receive the benefit of the "most-favoured-nation" clauses in the commercial treaties of this country. It may thus be

seen that the establishment of exotic industries can be due to two causes, which, though entirely opposite, exercise the same effect. There are many examples of English industries established in protected countries, to which it was found impossible to export at a profit in consequence of their high tariffs. We now see similar foreign industries founded in this country as the direct result of our Free Trade policy. We English have many commercial deficiencies, we commit many commercial errors. We neglect our secondary and technical education, we despise foreign languages, our consular services do little for trade, we maintain our antiquated system of coinage and weights and measures, our ports are not encouraged, and our canals are allowed to perish ; but our Free Trade policy, like a beneficent fairy, interposes between our faults and their punishment. It brings to our shores and our service the finest products of German education and training, and attracts the best enterprise and most highly specialised skill and capital of America, to work out its full development in the " Land of free imports."

After a fair review of the condition of British trade dynamically as well as statically, not only what it is, but what it is becoming, it is impossible to maintain that our markets are contracting, and that we are trading at an increasing disadvantage ; that our trade is degenerating in kind ; or that England is losing her position as economically the best seat for manufacturing industries.

GENERAL CONCLUSIONS.

FAILURE OF PROTECTIONIST THEORY AND PRACTICE.

During the past generation we have seen the National Protectionist Theory of Taxation of Imports applied to new countries and old, to young and small communities, such as our colonies, and to great continental states, such as America and Russia ; and we have seen Great Britain alone steadily adhering to her policy of Free Trade. The experience of two generations in which these two great opposing policies have been put into practice side by side, surely furnishes sufficient data for testing the two theories in the light of that experience. Adam Smith and Friedrich List each in his own day propounded his theory academically, and enforced it by purely deductive arguments, based on certain generally-admitted principles of human action. The recent fiscal controversy has rightly proceeded on entirely different lines—it has been in the main an attempt on both sides to reason by inductive process from the mass of available statistics and experience.

I have endeavoured in these pages, without entering into the statistical argument in detail, to follow the latter method, to state what appears to me to be the broader general conclusions which may be accepted, in particular as regards the United Kingdom, as demonstrated by the logic of experience, and

as shown in the statistical case presented by the advocates of Free Trade in the fiscal controversy; and to consider these conclusions in their relation to the "à priori" theories and deductive arguments of the two great opposing masters of this branch of economic science.

The phenomena which emerge most conspicuously from this inquiry are two:—

First: The complete failure of the States which pursue the policy of national protection to realise their ideal—the self-sufficing State.

Second: The extraordinary vitality of the industries and commerce of this country, which in many cases appear to turn to their profit, and to thrive on the very measures taken to injure them.

First—Failure to Benefit Protectionist Countries.

It must be admitted that the very statistics of the growth of international trade throughout the world, selected by Protectionists to prove their case, prove that the economic policy intended to substitute internal exchange for international exchange—to import nothing which can be produced at home—has met with scanty success, and that the more advanced Protectionist nations pass through precisely the same stages of industrial evolution we have passed and are passing through. Germany takes to manufacturing industries, she constructs a tariff framed to stimulate their growth and export, and nevertheless she suffers the "melancholy" fate

of all prosperous nations—an excess of visible imports; and now she is experiencing a growing dependence on the foreigner for her food supply. (Meanwhile she has grown to be our best customer except India.)

America, in her determination to be economically “national,” perpetrates a McKinley tariff. At first she succeeds in reducing her visible purchases from us by 15 millions, or by 33 per cent., but the figure starts growing again; six years later she repeats the operation by the Dingley revision of the tariff with the same results, and now her visible imports from this country amount to 58 millions in value, or 11 millions more than the pre-McKinley maximum. Meanwhile her invisible imports from us leap forward continuously by tens of millions (see Note, page 9).

It is seldom realised by Protectionists how few people in the best protected countries directly or indirectly benefit by Protection.

America, with its high and all-round tariff, is, perhaps, the best example. In the United States, Mr. Edmund Atkinson has made a careful analysis of the very complete Census returns made in that country, and he finds that out of 29 millions of male and female persons “occupied for gain,” only 600,000 benefit directly or indirectly in their business by the tariff; and the 28,400,000 who get nothing pay for it. The employment of these 600,000 persons may have been created by the tariff, but it cannot be supposed that they are a clear

addition to the sum of the population and employment of the country, when it is remembered that the same tariff, which created them among innumerable other similar achievements, incidentally destroyed American shipping and the shipbuilding trade. In advanced countries the proportion of the population engaged in manufactures of some kind would probably be little affected by universal Free Trade; the manufactures would to some extent be different manufactures, in all cases the alteration would be to better manufactures for the particular country, the product would be sold for less money, the consumers—that is, the whole population—would have easier lives, and the national income would be greatly increased. But the proportion of national industrial energy liberated from primary rural industries, and devoted to manufactures, which it is the whole policy of national protection to regulate, would probably be scarcely affected in advanced countries.

Experience gives no confirmation to the argument so frequently, and apparently so successfully, used by American Protectionists, that their protection is in any sense a protection of the wages of the working classes. Seeing that no direct protection is given to labour unless it be imported from China or Japan, and that low-class immigrant labour flows freely into the country at the rate of a million persons per annum, no deductive theorist could argue that it could do so; and recent statistical investigation has shown that, not only are the wages of labour no higher in the protected industries than in those

in the same country which enjoy no protection, but employment in these industries is less secure, and that, in all, the increase in the cost of living, due chiefly to the Protectionist tariff, has more than kept pace with the increase in wages, while the contrary has been the case in this country. The whole of the enhanced cost due to protective duties represents in part a net economic loss due to the perversion of the national industry, and in part the swollen profits of a very small body of extremely wealthy capitalists, generally united in the form of a Kartel or Trust, but no part of it appears to reach the pockets of the working populations.

Doubtless the total effect of the Protection of the Protectionist nations has been vastly to diminish the total volume of international trade. Its cost to the people, especially to the poor portion of the population, has been beyond estimate, and has entailed a lower standard of living, dearer food in most countries, dearer clothing, and fewer comforts and luxuries in all countries; but it has not fulfilled either of its two great purposes in any country, it has not built up a self-sufficing State, and it has not been the means of the building up of the great manufacturing powers of the advanced nations to anything like the extent commonly supposed either by Nationalist Protectionists or by Free Traders.

The nations of the world which have put into practice the national theory of Protection have thus found that it will not work in the modern world. They have paid the price, but they have not achieved

the blessed equilibrium desired by List—the “proportionate development of their agriculture, manufactures, commerce, and navigation.” On the contrary, their foreign trades, import and export together, have grown for a period even more rapidly than our own, and the dependence of each on other nations is constantly increasing. We find that everything which ought to happen and must happen does not “come off” according to the logical programme, and we begin to suspect there are other forces and principles in the world of modern trade than enter into the Protectionist’s philosophy.

Second—Failure to Injure Great Britain.

But how are we to explain the surprising fact that after forty years of severe Protection in America, after thirty years of growing Protection in France, Germany, and other countries, after the unanimous adoption of rigorous Nationalistic Protection in the narrowest sense by our Colonies, we, against whom alone these measures have been taken, remain with a prosperous industrial organisation equal to the employment of our whole available population; that we pay the highest nominal and real wages, and work under the best conditions; that we keep the first call on the trade of the world; that we keep the best of the trade; that we keep as much as we can do in good times? What is the explanation of this surprising phenomenon?

The explanation is, that the National Theory of Protection is foredoomed to failure, for it is directed

against modern forces far stronger than any that tariffs can control.

The forces of civilisation and contemporary industrial progress forbid national isolation. These forces, the growth of communications, the quickening and cheapening of carriage by sea and land, the increase of commercial intercourse and information, the rapidly-growing habit of travel, are all bringing the nations together, favour international trade and interdependence, and make for international friendship and peace. These forces create new international industries and services, and higher industries and services faster than tariffs can check the old ones.

We have seen that these higher and new industries gravitate to England, and thus it is that Free Trade England, dominated by the "demon of cheapness," instead of being isolated, extinguished, starved out, as the Protectionist theorist says she should, and must be, is able to secure not only as large a share as she can take, but is able to secure to herself the best of the trade. And thus the nation which holds and follows the morally higher theory of trade has its reward even in this world.

THE FUTURE.

Before concluding my argument on the purely economic aspect of the development of our Foreign Trade, I must in a few sentences give my forecast of its probable future. It is, in my opinion, not only unlikely, but impossible, that the phenomenal growth

of our exports and imports we have witnessed during the last four years can be maintained, and, further, it is not desirable that it should be maintained. Doubtless, foreign trade will grow at a slower rate. But, as a nation progresses in industrial development, a constantly decreasing proportion of its energy is necessarily directed to the production of material goods suitable for foreign exchange. A primitive people must expend all its energy in catching and growing food to live. An advanced people expends a small portion of its energy in the production of food, and a constantly decreasing proportion of its energy in its old primitive "staple" trades. It advances to more specialised products for more elaborated and specialised needs—from the bread-and-meat it advances to the "pickles-and-jam" stage. Its increase is in quality rather than quantity, for when a nation has enough in quantity it does not require more things—it requires better things. And these better things are not the material of foreign trade, they are better houses, better cities, better communications, better education, better amusements. Study the last Census returns, and you will see a constantly increasing proportion of our people engaged on these better things: in transport and distribution, in Government and public works and service, in the fine arts and the applied arts and crafts, in education, and in recreation and amusements. As we advance in prosperity this process will go on, and these newer occupations are not the production of the material goods suitable for foreign

trade. It is even probable we shall pay for our imports in an increasing degree by our services, and in a less degree by our goods. But our production of material and non-material wealth may then be much greater than it is now—its distribution may be better, our national income, our comfort, our prosperity may be greater, and our standard of living higher. And this brings me back to the point at which I started, that our foreign trade is no measure of our whole trade, and our imports and exports are no measure of our national income; and that our course of industrial and social progress in the future lies on lines for the most part distinct from foreign trade.

In my vision of both present and future you may consider me an optimist. Mr. Chamberlain calls himself an optimist—"an incorrigible" optimist. Well, if he is an optimist, so were Jonah and Jeremiah. But one who believes in the truth, the present profit, and final triumph of Free Trade, must be an optimist.

THE ETHICAL CASE.

NATIONAL AND INTERNATIONAL.

In the foregoing pages, and in fact in the whole literature of the fiscal controversy, the case of Free Trade *versus* Protection has been treated as a purely economic question, a sordid business "proposition," which each nation must solve for itself according to its own view of its immediate industrial and commercial interests in the narrowest national sense.

That it has a deeper and wider significance, that it is a battle not only between truth and error, but between light and darkness; that, in the realm of trade, it is a constant struggle of honest industry and intelligent enterprise against corruption and intrigue; and, in the realm of political life, a struggle of the greatest influence for "peace and goodwill among nations" against international jealousy and strife, is an aspect of the question scarcely noticed in the din of the controversy. And the reason of this is clear, it is that on the ethical plane there are no two sides to the question.

To the Protectionist nation itself the economic loss is of a varying and uncertain nature, but where it is greatest it is of far less importance to the community than the deterioration of the moral standard both of commerce and politics. The inner history of every modern protective tariff is a history of commercial and political corruption. When once it has been established in a democratic State, the minute minority of protected capitalists, in alli-

ance in some cases with an agrarian party, always manage to rule the community in their own interests. Whatever may be the momentary subject of political controversy, whatever may be the issue of which the voters are conscious at a general election, at the back stand the financial potentates and monopolists to guard the tariff by which they live and were brought into being. If public opinion is becoming rebellious, public opinion is found to be an article which can be manufactured at a cost—newspapers are started or captured and subsidised, universities are endowed, the springs of truth and knowledge are poisoned, the fountain of justice itself is contaminated. Above all, the organisations of political parties are made secure, party funds are always insufficient, the “sinews of war” decide the event, and pensioners inevitably become tools.

These are the occult forces which strangle freedom in a free country—forces described in the (at present) Protectionist *Times* as “the forces which are sapping the life of the United States, the forces of greed, of corruption, and of wealth, organised more perfectly than ever before in the history of the world.” In England we have in the long run “government of the people by the people for the people.” It is an American who has said that in America they have “government of the people by the machine for the trusts.”

But it is not so much in its national as in its international aspect that the strength of the ethical case for Free Trade lies. List himself speaks of

Free Trade in its ethical aspect as "commended both by common sense and religion." The vision which inspired Cobden was of a world of nations in which growing international trade would bear the fruit of better mutual knowledge and greater mutual sympathy, and these together would weave a web to bind peoples together of such infinite complexity that a war would become both a moral and an economic impossibility. This great moral end he believed could be gained by economic means.

The end in view of the nationalistic Protectionist, on the other hand, is not peace, but war and efficiency in war, and its method is the "method of barbarism," a perpetual state of economic warfare. The ideal State of List is the economic unit which can gather its internal resources together, and find within itself all that is necessary to enable it to fight its neighbours, and to attain this desirable condition he did not scruple to say Germany will have to annex Holland and Denmark. His successors to-day say Germany must have a colonial empire to provide an outlet for her surplus population, and food for her people at home.

The higher moral standard of Richard Cobden's theory and policy all Protectionists, as well as Free Traders, must allow, but it is their custom to cast ridicule upon the great Free Trade politician as a visionary and a convicted false prophet, and to speak of the great exponent of the national economic system as "scientific."

Here again we may appeal to the experience of sixty years, not to assist our moral judgment, but to survey the progress of the conflict between the admittedly higher and admittedly lower—between the economics of peace and the economics of war. It cannot be denied that although all the nations of the world except ourselves have deliberately adopted the national system of tariffs, it has become not less difficult, but infinitely more difficult for them to prepare for and maintain a state of warfare on a scale which would engage the full strength of their military organisations. At the edge of the world, in Manchuria or South Africa it may still be possible, with infinite difficulty, to wage a war on a considerable scale, but those who have most closely considered the question are most strongly of opinion that a great European war, in which naval as well as military powers were engaged, in which the customary channels of international intercourse, material and financial, were stopped or paralysed, would collapse by the utter economic and industrial breakdown of the countries concerned, and could never be fought out to a finish by the armies and fleets of the nations engaged. If this be true, and personally I have no doubt it is true, is it too much to say that when Cobden prophesied that the increase of international communications would end warfare between civilised States, he prophesied even better than he knew, and that the rival system of List, which aimed at the creation of the self-contained State, self-sufficing for war, has broken down in its

attempts to realise its anti-ethical ideal as completely as its economic ideal?

Doubtless, the ethical standard of international relations—the standard of war and diplomacy, is as yet of a primitive and barbarous character; but still it slowly improves. Civilised peoples have long left behind them the stages of wars of pure rapine, wars for cows, and wives, and slaves; wars of extermination for conquest of land. A dynastic or a religious war between civilised peoples is inconceivable in these days. The sources of international strife are now, at bottom, almost invariably economic. Is it the dream of a fanatic to believe that when nations once realise the complete futility of their nationalistic economic aims, this last cause of war may also disappear?

“But what about the meanwhile,” the average worldly man may ask, “we are living in a world which still believes in wars, and if occasion arises will rush into one? Admitting the possibility of universal collapse of the material organisation of civilisation under the strain, will it not then be worse for us than for others? Has our path of peace been the path of relative safety? Have we not more extensive international relations than others, and are we not, therefore, more dependent on the foreigner than they?” Here again we can prove that the higher path has been not only the most profitable, but the most secure. The Report of the recent Royal Commission on Food Supply in Time of War proves by the unanimous testimony of the most experienced

naval and commercial experts that, with our great Free Trade industries, with our merchants, and our ships, drawing our food and raw material from all parts of the earth, added to our naval power, our supplies are rendered more, and not less, secure by the very extent and variety of our operations, and are placed beyond the possibility of serious interruption by any enemy.

And thus Free Trade stands justified. In the sphere of ethics it is the path of humanity, honesty, and commercial purity, but no less in the sphere of politics is it the path of safety and in the sphere of economics is it the path of profit.

Protectionist nations have chosen the spirit and the methods of war to govern their commercial policy. We have chosen the higher path, and we have proved the old word true, that "Whosoever will save his life shall lose it, but whosoever shall lose his life, the same shall save it."

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